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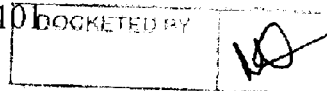
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Arizona Corporation Commission

DOCKETED

AUG 02 2016

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8 Attorneys for Liberty Utilities (Bella Vista Water) Corp.
and Liberty Utilities (Rio Rico Water & Sewer) Corp.
9

10 **BEFORE THE ARIZONA CORPORATION COMMISSION**

11
12 IN THE MATTER OF THE APPLICATION
OF LIBERTY UTILITIES (BELLA VISTA
13 WATER) CORP., AN ARIZONA
CORPORATION, FOR A
14 DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
15 PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
16 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02465A-15-0367

17 IN THE MATTER OF THE APPLICATION
OF LIBERTY UTILITIES (BELLA VISTA
18 WATER) CORP., AN ARIZONA
CORPORATION, FOR AUTHORITY TO
19 ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED
20 \$4,700,000.

DOCKET NO: W-02465A-15-0370

21 IN THE MATTER OF THE APPLICATION
OF LIBERTY UTILITIES (RIO RICO
22 WATER & SEWER) CORP., AN ARIZONA
CORPORATION, FOR A
23 DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
24 PROPERTY AND FOR INCREASES IN ITS
WATER AND WASTEWATER RATES
25 AND CHARGES FOR UTILITY SERVICE
26 BASED THEREON.

DOCKET NO: WS-02676A-15-0368

1 IN THE MATTER OF THE APPLICATION
2 OF LIBERTY UTILITIES (RIO RICO
3 WATER & SEWER) CORP., AN ARIZONA
4 CORPORATION, FOR AUTHORITY TO
5 ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED
\$8,900,000.

DOCKET NO: WS-02676A-15-0371

**NOTICE OF FILING TESTIMONY
IN SUPPORT OF COMPREHENSIVE
SETTLEMENT AGREEMENT**

6 As contemplated in § 5 of the Comprehensive Settlement Agreement, executed and
7 filed on July 29, 2016, and in an effort to assist the Commission, Liberty Utilities (Bella
8 Vista Water) Corp. and Liberty Utilities (Rio Rico Water & Sewer) Corp. (collectively,
9 "Liberty BV/RR") hereby submit the Testimony of Matthew Garlick in Support of
10 Comprehensive Settlement Agreement. Liberty BV/RR urges the Commission to approve
11 the Comprehensive Settlement Agreement as soon as possible.

12 RESPECTFULLY SUBMITTED this 2nd day of August, 2016.

13 SHAPIRO LAW FIRM, P.C.

14
15
16 By: 

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19 and

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25 (Bella Vista Water) Corp. and Liberty Utilities
26 (Rio Rico Water & Sewer) Corp.

1 **ORIGINAL** and thirteen (13) copies
2 of the foregoing were delivered
3 this 2nd day of August, 2016 to:

4 Docket Control
5 Arizona Corporation Commission
6 1200 W. Washington Street
7 Phoenix, AZ 85007

8 **COPY** of the foregoing was hand-delivered
9 this 2nd day of August, 2016 to:

10 Dwight Nodes, Chief Administrative Law Judge
11 Hearing Division
12 Arizona Corporation Commission
13 1200 W. Washington Street
14 Phoenix, AZ 85007

15 **COPY** of the foregoing was emailed & hand-delivered
16 this 2nd day of August, 2016 to:

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26 this 2nd day of August, 2016 to:

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and Liberty Utilities (Rio Rico Water & Sewer) Corp.
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16 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02465A-15-0367

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CORPORATION, FOR AUTHORITY TO
19 ISSUE EVIDENCE OF INDEBTEDNESS IN
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20 \$4,700,000.

DOCKET NO: W-02465A-15-0370

21 IN THE MATTER OF THE APPLICATION
OF LIBERTY UTILITIES (RIO RICO
22 WATER & SEWER) CORP., AN ARIZONA
CORPORATION, FOR A
23 DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
24 PROPERTY AND FOR INCREASES IN ITS
WATER AND WASTEWATER RATES
25 AND CHARGES FOR UTILITY SERVICE
26 BASED THEREON.

DOCKET NO: WS-02676A-15-0368

1 IN THE MATTER OF THE APPLICATION
2 OF LIBERTY UTILITIES (RIO RICO
3 WATER & SEWER) CORP., AN ARIZONA
4 CORPORATION, FOR AUTHORITY TO
ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED
\$8,900,000.

DOCKET NO: WS-02676A-15-0371

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9 **TESTIMONY OF MATTHEW GARLICK**
10 **IN SUPPORT OF**
11 **COMPREHENSIVE SETTLEMENT AGREEMENT**
12 **August 2, 2016**
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1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Matthew Garlick. My business address is 12725 W. Indian School Road,
4 Suite D-101, Avondale, Arizona 85392.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am providing testimony on behalf of Liberty Utilities (Bella Vista Water) Corp.
7 ("Liberty Bella Vista") and Liberty Utilities (Rio Rico Water & Sewer) Corp.
8 ("Liberty Rio Rico") (collectively "Liberty BV/RR" or "Applicants").

9 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

10 A. I am employed by Liberty Utilities as President of AZ/TX.

11 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

12 A. To express Liberty BV/RR's support for the proposed Comprehensive Settlement
13 Agreement executed and filed on July 29, 2016 ("Comprehensive Settlement")
14 between Liberty Bella Vista, Liberty Rio Rico, the Arizona Corporation Commission
15 Utilities Division Staff ("Staff"), the Residential Utility Consumer Office
16 ("RUCO"), and the Western Infrastructure Sustainability Effort ("WISE")
17 (collectively, the "Parties").

18 **Q. HAVE THE PARTIES RESOLVED ALL ISSUES THAT WERE IN DISPUTE**
19 **BETWEEN THEM IN THE PREFILED TESTIMONY?**

20 A. Yes.

21 **II. THE COMPREHENSIVE SETTLEMENT.**

22 A. **Terms and Conditions.**

23 **Q. WHAT IS THE PURPOSE OF THE COMPREHENSIVE SETTLEMENT?**

24 A. To settle all issues that remain in dispute in our pending rate cases, Commission
25 Docket Nos. W-02465A-15-0367 and WS-02676A-15-0368, and in our pending
26

1 financing applications, Docket Nos. W-02465A-15-0370 and WS-02676A-15-0371.
2 These four dockets were consolidated. The Parties have agreed to the determination
3 of fair value rate base, establishment of a revenue requirement, and the setting of
4 rates for water utility service by Liberty Bella Vista and water and sewer utility
5 service by Liberty Rio Rico. The Parties also have agreed on several issues for this
6 case and moving forward, including the Liberty Utilities Cost Allocation Manual
7 ("CAM") and allocation methodologies, indirect overhead ("INDOH"), and
8 treatment of incentive pay for local employees. I won't attempt to speak to every
9 single issue that was resolved. But I can say that all of the critical issues, including
10 the rate of return and the Fair Value Arizona Rate Making Model ("FARE") have
11 been settled between the Parties.

12 **Q. WILL YOU PLEASE SUMMARIZE THE GENERAL RATEMAKING**
13 **TERMS?**

14 A. The Parties have agreed to a Fair Value Rate Base ("FVRB") of \$11,633,206 for
15 Liberty Bella Vista, \$10,454,760 for Liberty Rio Rico's water division, and
16 \$5,279,632 for Liberty Rio Rico's sewer division.¹ The Parties have agreed to a total
17 revenue requirement of \$5,569,296 for Liberty Bella Vista, which revenue
18 requirement results in an increase in revenues of \$958,954, or 20.80 percent.² The
19 Parties have agreed to a total revenue requirement of \$3,886,431 for Liberty Rio
20 Rico water, which revenue requirement results in an increase in revenues of
21 \$814,262, or 26.50 percent.³ The Parties also have agreed to a total revenue
22 requirement of \$1,640,590 for Liberty Rio Rico sewer, which revenue requirement

23 ¹ Comprehensive Settlement at 5, ¶ 2.2, and Settlement Schedule B-1 (Liberty Bella Vista,
24 Liberty Rio Rico water and Liberty Rio Rico sewer).

25 ² Comprehensive Settlement at 4, ¶ 2.1, and Settlement Schedule A-1 (Liberty Bella Vista).

26 ³ Comprehensive Settlement at 4, ¶ 2.1, and Settlement Schedule A-1 (Liberty Rio Rico water).

1 results in an increase in revenues of \$162,266, or 10.98 percent.⁴ These revenue
2 requirements are based on the Parties' agreement to a rate of return of 7.72 percent
3 on FVRB, which return was determined using a 70 percent equity-30 percent debt
4 capital structure, a cost of equity equal to 9.7 percent, and a cost of debt equal to
5 3.10 percent.⁵

6 **Q. YOU MENTIONED THAT THE DISPUTE OVER INCENTIVE PAY HAS**
7 **BEEN RESOLVED?**

8 A. Yes. The Parties have agreed to recognize 90 percent of the test year performance
9 based compensation and incentive pay paid to local Liberty Utilities Service Corp.
10 employees in this case and moving forward for our other Arizona utilities. We think
11 this is a fair resolution of an issue that has been in dispute in other Liberty Utilities
12 rate cases in a manner consistent with another recent Commission decision.⁶
13 Additionally, the Parties have agreed to include known and measurable 2015 and
14 2016 pay increases for Liberty Utilities Service Corp. employees that work in
15 Arizona and provide labor and services to Liberty BV/RR. The Parties recognize
16 these pay increases as a necessary and reasonable operating expense.

17 **Q. WHAT HAVE THE PARTIES WORKED OUT WITH REGARD TO THE**
18 **PPAM AND PTAM?**

19 A. The Parties agree that the PPAM is reasonable and should be approved. Liberty
20 BV/RR is withdrawing the request for the PTAM as part of the compromise terms
21 of the settlement.⁷

22 ⁴ Comprehensive Settlement at 4, ¶ 2.1, and Settlement Schedule A-1 (Liberty Rio Rico
23 sewer).

24 ⁵ Comprehensive Settlement at 8-9, ¶¶ 2.5.1-2.5.4, and Settlement Schedule D-1 (Liberty
25 Bella Vista, Liberty Rio Rico water and Liberty Rio Rico sewer).

26 ⁶ *Epcor Water Arizona Inc.*, Decision No. 75268 (Docket No. WS-01303A-14-0010) at
31:19-28.

⁷ Comprehensive Settlement at 10, ¶¶ 2.7.5-2.7.6.

1 **Q. WHAT ABOUT THE FARE?**

2 A. Also as part of the compromise terms, Liberty BV/RR has agreed to set aside its
3 request for the FARE at this time given the pending System Improvement Benefits
4 Mechanism ("SIB") appeal before the Arizona Supreme Court. Should the court
5 reinstate the SIB mechanism, the Parties agree that Liberty BV/RR may seek
6 approval of SIBs for Liberty BV/RR.⁸

7 **Q. OKAY, ARE THERE ANY RATE DESIGN ISSUES YOU'D LIKE TO**
8 **MENTION THAT HAVE BEEN RESOLVED?**

9 A. Yes, the Comprehensive Settlement reflects the Parties' agreement on the rate
10 design, including reconnection costs for Liberty Rio Rico's sewer division.
11 The Parties agree that Liberty Rio Rico sewer's charge for disconnection and
12 reconnection for non-payment will be the actual cost, including costs for things such
13 as excavation and trenching, pipeline modification, backfill and grading, road repairs
14 and permitting.⁹ In addition, the Parties have agreed to resolve some confusion that
15 arose out of Liberty BV/RR's attempt to implement Commission-approved low-
16 income tariffs.¹⁰

17 **B. Shared Services, Cost Allocation Methodologies and the CAM.**

18 **Q. MR. GARLICK, WOULD YOU PLEASE SUMMARIZE THE**
19 **SETTLEMENT TERMS RELATED TO THE USE OF SHARED SERVICES**
20 **AND THE COST ALLOCATIONS?**

21 A. Generally, the Parties agree that the use of shared services is appropriate and
22 reasonable and that the resulting costs, including allocated corporate plant and
23 INDOH in rate base, are reasonable and necessary costs of service for Liberty

24 ⁸ Comprehensive Settlement at 14, ¶¶ 4.1-4.2.

25 ⁹ Comprehensive Settlement at 10, ¶ 2.7.4.

26 ¹⁰ Comprehensive Settlement at 8, ¶ 2.4.

1 Utilities in Arizona.¹¹ That means we will not have to keep litigating the same issues
2 in every rate case filed by Liberty Utilities in Arizona.

3 **Q. AS A REMINDER, WHAT ENTITIES DOES LIBERTY UTILITIES**
4 **OPERATE IN ARIZONA?**

5 A. Besides Liberty BV/RR, Liberty Utilities (Litchfield Park Water & Sewer) Corp.
6 ("Liberty Litchfield Park"), Liberty Utilities (Entrada Del Oro Sewer) Corp.
7 ("Liberty EDO"), Liberty Utilities (Gold Canyon Sewer) Corp. ("Liberty Gold
8 Canyon"), and Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black
9 Mountain").

10 **Q. DO THE PARTIES AGREE THAT THE CAM AND THE ALLOCATION OF**
11 **COSTS TO LIBERTY BELLA VISTA AND LIBERTY RIO RICO RESULT**
12 **IN A REASONABLE LEVEL OF ALLOCATED COSTS IN THIS RATE**
13 **CASE?**

14 A. Yes. First, the Parties agree that customers do benefit from access to capital through
15 the ultimate parent, APUC.¹² The Parties also specifically agree that the 2015
16 Algonquin Power & Utilities Corp. ("APUC") CAM (dated July 1, 2015), and the
17 methodologies used in connection with the CAM are an acceptable and reasonable
18 means of allocating shared costs, and that the cost levels used in the Settlement
19 Schedules are reasonable costs of service.¹³ These costs include (1) Legal Costs,
20 (2) Tax Services, (3) Audit, (4) Investor Relations, (5) Director Fees and Insurance,
21 (6) Licenses, (7) Escrow and Transfer Agent Fees, (8) Other Professional Services,
22 and (9) Office Administration, which costs arise from shared services provided by
23 APUC and Liberty Utilities Canada and are allocated to Liberty Utilities entities,

24 ¹¹ Comprehensive Settlement at 10-13, § 3.

25 ¹² Comprehensive Settlement at 11, ¶ 3.3.3.

26 ¹³ Comprehensive Settlement at 10, 11-12, ¶¶ 3.2, 3.3.1, 3.3.5.

1 including Liberty Bella Vista and Liberty Rio Rico.¹⁴

2 **Q. SO ANY ALLOCATED COSTS ARE GOING TO BE VIEWED AS**
3 **REASONABLE IN ANY RATE CASE?**

4 A. No. What the Parties' agreement does is address the shared services model, the cost
5 allocation methodologies and the current CAM, along with the resulting cost levels
6 in this rate case and applied to pending and prospective applications for our other
7 systems in Arizona. The language in the Comprehensive Settlement addresses all of
8 these issues relating to the CAM. The Parties have agreed to approval of those
9 allocation methodologies for Liberty BV/RR and the other Arizona utilities owned
10 by Liberty Utilities. In future rate cases, Staff, RUCO, and other interveners will
11 have the right to verify the costs incurred, and to make independent cost
12 recommendations regarding recoverability of those costs.¹⁵

13 **Q. HOW DOES THE COMPREHENSIVE SETTLEMENT RESOLVE THE**
14 **INDOH ISSUE?**

15 A. The Parties have agreed that it is appropriate to capitalize a portion of the costs
16 incurred by APUC and Liberty Utilities Canada, and to record a portion of those
17 costs as INDOH. The Parties agree that 21 percent capitalization of allowed costs is
18 appropriate in this case, as well as the upcoming Liberty Litchfield Park rate case.
19 For Liberty Bella Vista, the 21 percent amounts to \$666,727, for Liberty Rio Rico
20 water \$326,264, and for Liberty Rio Rico sewer \$67,219.¹⁶ Additionally, Liberty
21 Utilities has agreed to, on a going forward basis, conduct periodic time studies in
22 order to ensure that the capitalized percentage is appropriate.¹⁷ The Parties have also

23
24 ¹⁴ Comprehensive Settlement at 11, ¶ 3.3.2.

25 ¹⁵ Comprehensive Settlement at 10, ¶ 3.2.

26 ¹⁶ Comprehensive Settlement at 5, 12, ¶¶ 2.2.3, 3.4.

¹⁷ Comprehensive Settlement at 12, ¶ 3.5.

1 agreed that the costs of the local Engineering and Developmental Services
2 departments located in Avondale should be capitalized and allocated between the
3 utilities receiving the benefit of those services.¹⁸ The Parties have agreed that
4 allocation INDOH based on monthly Construction Work in Progress (CWIP) is
5 reasonable.

6 **Q. WHAT ABOUT ALLOCATED CORPORATE PLANT?**

7 A. Likewise, the Parties agree that the reasonable costs of shared plant should be
8 allocated and capitalized.¹⁹

9 **III. CONCLUSION.**

10 **Q. ARE THERE ANY OTHER PROVISIONS OF THE COMPREHENSIVE**
11 **SETTLEMENT THAT YOU WISH TO DISCUSS?**

12 A. Not at this time.

13 **Q. WHY DO YOU BELIEVE THAT COMMISSION APPROVAL OF THE**
14 **TERMS OF THE COMPREHENSIVE SETTLEMENT IS IN THE PUBLIC**
15 **INTEREST?**

16 A. All parties to the rate case have joined in settling and, collectively, the Parties
17 represent all of the interested stakeholders. The Parties have settled all issues,
18 including agreeing to all of the components of new rates for Liberty Bella Vista and
19 Liberty Rio Rico. I urge the Commission to accept and approve the Comprehensive
20 Settlement as soon as possible.

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE**
22 **COMPREHENSIVE SETTLEMENT?**

23 A. Yes.

25 ¹⁸ Comprehensive Settlement at 13, ¶ 3.6.

26 ¹⁹ Comprehensive Settlement at 12, ¶ 3.4.